

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Otsego Lake Township	County Otsego
Audit Date 3/31/04	Opinion Date 8/31/04	Date Accountant Report Submitted to State: 9/30/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

OCT - 1 2004

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ yes ☐ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) Keskine, Cook, Miller, Smith & Alexander, LLP			
Street Address 100 West First Street	City Gaylord	State MI	ZIP 49735
Accountant Signature <i>Walter G. K.</i>			

TOWNSHIP OF OTSEGO LAKE
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

TOWNSHIP OFFICIALS

SUPERVISOR

THOMAS WAGAR

CLERK

LORRAINE MARKOVICH

TREASURER

B. SUZANNE WHYTE

ASSESSOR

FRED LINDROTH

TRUSTEES

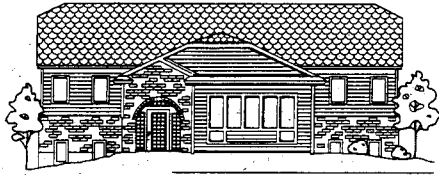
MARY BROWN

EDGAR DOSS

OTSEGO LAKE TOWNSHIP

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Keskin, Cook, Miller, Smith & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 31, 2004

To the Township Board
Otsego Lake Township
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund activities of the Township of Otsego Lake, as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund activity of the Township of Otsego Lake as of March 31, 2004, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of March 31, 2004.

The management's discussion and analysis on pages I-IV and budgetary comparison information on pages 21-25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KK Cook Miller Smith & Alexander LLP

KESKINE, COOK, MILLER, SMITH & ALEXANDER, LLP

Otsego Lake Township

Supervisor

Tom Wagar
9515 Old 27 South
Gaylord, MI 49735

Clerk

Lorraine Markovich
P.O. Box 99
Waters, MI 49797

Treasurer

Suzanne Whyte
P.O. Box 3038
Gaylord, MI 49734

Assessor

Fred Lindroth
P.O. Box 98
Waters, MI 49797



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Otsego Lake Township's annual financial report presents our discussion analysis of the Township's financial performance during the fiscal year ended March 31, 2004. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Our financial status remained stable over the last year. Assets increased by a small percentage.

Overall revenues were \$710,890.00 and overall expenses were \$544,858.00.

The tax base increased by 6.15 percent.

We incurred a \$100,000.00 debt during the year and purchased \$189,693.00 in capital assets.

Overview of the Financial Statements

This annual report consists of three parts, management discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are Township wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

Township Wide Statements

The Township wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Townships assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The Township wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position.

Over time increases/decreases in the Townships net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. Descriptions of governmental activities are: General Fund, Fire Fund, Trash Fund and Liquor Fund.

Fund Financial Statements

The fund financial statements provide more detailed information about the Townships funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the Townships board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following kinds of funds:

Governmental Funds – Most of the Townships activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the Township wide statements and the fund statements are disclosed to explain the difference between them.

Fiduciary Funds – The Township is a trustee or fiduciary for assets that belong to others. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belong. These activities do not appear in the Township wide financial statements since the assets do not belong to the Township.

Financial Analysis of the Township as a Whole

Net Assets – The Townships combined net assets increased during the year ended March 31, 2004 totaling \$166,032.00.

This condition can be traced to the following factors: The increase is mainly due to the purchase of capital asset items.

Governmental Activities – The changes in this area can be attributed to the following factors: The net assets for governmental activities totaled \$ 1,635,940.00. The unrestricted net assets totaled \$784,199.00 a portion of the unrestricted funds will go for road improvement, recreation assets and upkeep of our township facilities, including Town hall and cemetery.

Financial Analysis of the Townships Funds

General Fund – This fund is used to record all activities of the Township not required to be recorded in a separate fund. This would include parks, zoning, building and grounds, legislative, administrative and elections. The major source of revenue for the general fund is from the Township tax base, the revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Township

Fire Fund – This fund is used to record Fire Department activities. It's major source of revenue comes from a Township wide mill-age. The levy in 2003 it was .80. The expenses incurred are for operational costs.

Trash Fund – The revenue source for the trash fund is a special assessment district all parcels with a dwelling are assessed. The expenses of this fund are a monthly charge for trash collection.

Liquor Fund – The liquor fund is used to pay the expenses of our liquor sales inspector. Revenues come from both the state and Township.

Capital Asset and Long-term Debt Activity

Capital Assets – During the year 2003-2004 the Township equipped the Hall and Fire Dept. with back-up emergency generators. We also started placing Dry Hydrants in key locations in the Township. Upgrading our Fire and 1st response capabilities continue to be a high priority.

Long-term Debt – The Township purchased a new Fire truck in 2003-2004 increasing our long-term debt to 100,000.00.

Known Factors affecting Future Operations

A major concern is the lack of funding our county road commission is receiving. More and more our board is being asked to supplement Primary Road improvement, something that is not our responsibility.

Contacting Entity Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of Otsego Lake Township's finances and to demonstrate the Townships accountability for the revenues it receives. If you have questions concerning this report please contact:

Lorraine Markovich or Thomas H. Wagar

10584 Old 27 South

Waters MI 49797

Or by calling 989-732-6929

A handwritten signature in black ink, appearing to read 'T. H. Wagar', written in a cursive style.

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF NET ASSETS
MARCH 31, 2004**

	GOVERNMENTAL ACTIVITIES
<hr/>	
ASSETS	
Current Assets:	
Cash	\$ 1,087,096
Delinquent Taxes/Assessments Receivable	51,281
Prepaid expenses	18,553
Due from Other Funds	1,890
	<hr/>
Total Current Assets	1,158,820
	<hr/>
Non-current Assets:	
Capital Assets	1,120,767
Accumulated Depreciation	(539,467)
	<hr/>
Total Non-current Assets	581,300
	<hr/>
Total Assets	1,740,120
	<hr/>
LIABILITIES	
Current Liabilities:	
Accounts payable	4,180
Current Portion - Note Payable	19,734
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Total Current Liabilities	23,914
	<hr/>
Non-current Liabilities:	
Note Payable	80,266
	<hr/>
Total Liabilities	104,180
	<hr/>
NET ASSETS	
Invested in capital assets, net of related debt	481,300
Restricted for:	
Fire Protection	173,249
Trash Collection	197,192
Unrestricted	784,199
	<hr/>
Total Net Assets	\$ 1,635,940
	<hr/> <hr/>

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2004**

	EXPENSES	CHARGES FOR SERVICES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES TOTAL
			OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	
GOVERNMENTAL ACTIVITIES					
General Administration	(119,283)	468	-	-	(118,815)
Tax Collection	(44,451)	50,013	-	-	5,562
Elections	(1,338)	-	-	-	(1,338)
Township Property	(39,614)	-	-	-	(39,614)
Cemetery	(190)	-	-	-	(190)
Fire Protection	(97,645)	-	3,600	-	(94,045)
Planning & Zoning	(3,794)	-	-	-	(3,794)
Trash Collection	(227,945)	-	-	-	(227,945)
Liquor Law Enforcement	(2,564)	-	-	-	(2,564)
Roads	(8,034)	-	-	-	(8,034)
Total Cost of Sales	(544,858)	50,481	3,600	-	(490,777)
GENERAL REVENUES					
Property Taxes/Assessments:					
General Purposes					129,993
Fire Protection					102,729
Trash Collection					228,047
State Shared Revenues					179,866
Interest					5,812
Rental Income					2,750
Miscellaneous					7,612
TOTAL GENERAL REVENUES					656,809
CHANGE IN NET ASSETS					166,032
NET ASSETS - BEGINNING OF YEAR					1,469,908
NET ASSETS - END OF YEAR					1,635,940

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2004**

	MAJOR GOVERNMENTAL FUNDS			NON-MAJOR FUND		TOTAL
	GENERAL	FIRE PROTECTION	TRASH COLLECTION	LIQUOR CONTROL	CONTROL	
ASSETS						
Cash and Equivalents	\$ 763,612	\$ 168,215	\$ 155,269	\$ -	\$ -	\$ 1,087,096
Delinquent Taxes Receivable	20,249	7,662	23,370	-	-	51,281
Prepaid expenses	-	-	18,553	-	-	18,553
Due from Other Funds	1,890	-	-	-	-	1,890
Total Assets	785,751	175,877	197,192	-	-	1,158,820
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	1,552	2,628	-	-	-	4,180
Fund Equity:						
Fund Balance - Undesignated	784,199	173,249	197,192	-	-	1,154,640
Total Liabilities and Fund Equity	\$ 785,751	\$ 175,877	\$ 197,192	\$ -	\$ -	\$ 1,158,820

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2004**

TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 5)	\$ 1,154,640
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Amounts reported for governmental activities in the Statement of Net Assets (page 3) are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not recorded in the funds. This represents the amounts by which capital assets used in governmental funds exceeds accumulated depreciation.	581,300
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Long-term liabilities such as notes payable are not recorded in governmental funds using the modified accrual basis of accounting since they are not required to be paid from current spendable resources	(100,000)
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF NET ASSETS - PAGE 3)	\$ <u>1,635,940</u>
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See accompanying notes to financial statements

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2004**

	MAJOR GOVERNMENTAL FUNDS			NON-MAJOR FUND	
	GENERAL	FIRE PROTECTION	TRASH COLLECTION	LIQUOR CONTROL	TOTAL
REVENUES					
Taxes and Assessments	\$ 132,239	\$ 102,732	\$ 228,048	\$ -	\$ 463,019
State Shared Revenues	177,698	-	-	2,168	179,866
Charges for Services	50,481	3,600	-	-	54,081
Interest	3,607	1,741	463	-	5,811
Miscellaneous	4,592	3,525	-	-	8,117
Total Revenues	368,617	111,598	228,511	2,168	710,894
EXPENDITURES					
General Government	203,314	-	-	-	203,314
Street Lights	1,591	-	-	-	1,591
Roads	6,443	-	-	-	6,443
Debt Service	-	-	-	-	-
Trash Collection	-	-	227,945	-	227,945
Law Enforcement	-	-	-	2,564	2,564
Fire	-	242,990	-	-	242,990
Planning & Zoning	3,794	-	-	-	3,794
Total Expenditures	215,142	242,990	227,945	2,564	688,641
Excess (Deficiency) of Revenues over Expenditures	153,475	(131,392)	566	(396)	22,253
Other Financing Sources:					
Loan Proceeds	-	100,000	-	-	100,000
Operating transfers in/(out)	(396)	-	-	396	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	153,079	(31,392)	566	-	122,253
Fund Balance - April 1	631,120	204,641	196,626	-	1,032,387
Fund Balance - March 31	\$ 784,199	\$ 173,249	\$ 197,192	\$ -	\$ 1,154,640

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2004**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 122,253
- PAGE 7	

Amounts reported for governmental activities in the Statement of Activities
(page 4) are different because:

Governmental funds report long-term debt proceeds as other financing sources whereas debt is reported as a liability on the statement of net assets. Current year loans	(100,000)
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Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are capitalized and depreciation charged to expense over their useful life.	
Depreciation expense - current year	(45,914)

Cost of assets capitalized - current year	189,693
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF ACTIVITIES - PAGE 7)	<u>\$ 166,032</u>
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See accompanying notes to financial statements

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
MARCH 31, 2004**

ASSETS	
Cash and Equivalents	\$ 25,517
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LIABILITIES	
Due to Individuals	13,404
Due to Other Funds	1,890
Due to Schools	10,223
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Total Liabilities	25,517
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NET ASSETS	
Net Assets	\$ -
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See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED MARCH 31, 2004**

ADDITIONS

Property Tax Collections:	
Township	\$ 495,155
County	929,303
State	613,584
Schools	1,845,826
Other collections	15,128
	<hr/>
Total Additions	3,898,996
	<hr/>

DEDUCTIONS

Tax Payments:	
Township Tax Payments	502,718
County Tax Payments	928,052
State Tax Payments	613,027
School Tax Payments	1,840,865
Other Deductions	14,334
	<hr/>
Total Deductions	3,898,996
	<hr/>

Net Assets - Beginning of Year	-
	<hr/>
Net Assets - End of Year	\$ -
	<hr/>

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE A: ENTITY

The Township of Otsego Lake is a general law township of the State of Michigan, located in Otsego County, Michigan. It operates under an elected board and provides services to its residents in many areas including public safety, community enrichment, and human services. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Otsego Lake Township.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of Otsego Lake Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Otsego Lake Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2003, the Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED))**

Government-Wide Financial Statements (Continued)

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Township currently has no business type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

FUND TYPES AND MAJOR FUNDS (CONTINUED)

Governmental Funds (Continued)

Fire Protection Fund – This fund is used to account for all financial activity related to the Township's fire services. The main source of revenue is derived from property taxes and fees.

Trash Collection Fund – This fund is used to account for the Township's trash pick-up services. Revenues are derived from property tax assessments.

Other Funds

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

The Township has one non-major fund – Liquor Control which receives State Shared Liquor Funds and employs a constable to perform Liquor Control Duties. General fund transferred \$396 to support this fund during the year.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations include transfers between funds.

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2003, are recorded as revenue in the current year. The Township's taxable value for the 2003 tax year totaled \$130,114,980.

The tax rates for the year ended March 31, 2004, were as follows:

PURPOSE	RATE/ASSESSED VALUATION
General	0.8488 mills per \$1,000
Fire Protection	Special Assessment
Trash Collection	Special Assessment

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items.

ACCOUNTS RECEIVABLE

The Township has property taxes/assessments receivable in the following funds:

General	\$ 20,249
Fire Protection	7,662
Trash Collection	<u>23,370</u>
	<u>\$ 51,281</u>

These amounts are paid by a county tax revolving fund. No allowance for doubtful accounts is considered necessary at March 31, 2004.

DUE FROM OTHER FUNDS

The tax collection (fiduciary fund) has not distributed \$1,890 due to the general fund.

PREPAID EXPENSES

This amount consists of a prepayment of the trash collection contract, \$18,553.

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$2,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Estimated useful lives, in years, for depreciable assets are as follows:

Township vehicles	5 – 10 years
Buildings and improvements	25 – 40 years
Land improvements	10 – 20 years
Machinery and equipment	5 – 10 years
Infrastructure	20 – 40 years

Land and construction in progress are not depreciated.

For information describing capital assets, see Note D.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Township long-term debt currently consists of a \$100,000 note dated August 15, 2003 with Fifth Third Bank at 2.867% interest. Secured by a 2100 Gallon Fire Tanker.

Payments are due as follows:

<u>Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
4/15/04	\$ 21,525	\$ 19,734	\$ 1,791
4/15/05	21,525	19,224	2,301
4/15/06	21,525	19,775	1,750
4/15/07	21,525	20,342	1,183
4/15/08	21,525	20,925	600
	<u>\$ 107,625</u>	<u>\$ 100,000</u>	<u>\$ 7,625</u>

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE C: CASH AND INVESTMENTS

The Township combines fund cash accounts to enhance investment income. At March 31, 2004, such amounts and fund balances were as follows:

	<u>CARRYING AMOUNT</u>
General	\$ 763,612
Trash Collection	155,269
Liquor Control	-
	<u>\$ 918,881</u>

Negative balances may exist from time to time among funds for short periods of time. Such balances are non-interest bearing in nature.

Cash and equivalents consists of all cash on hand, checking and savings accounts, and certificates of deposit with an initial maturity of three months or less.

All cash deposits are maintained in financial institutions in the Gaylord, Michigan area. The Township's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.
- Category 2 – Collateralized with securities held by the pledging financial Institution's trust department or agent in the Township's name.
- Category 3 – Uncollateralized.

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE C: CASH AND INVESTMENTS (CONTINUED)

	BANK BALANCE	1	CATEGORY 2	3	CARRYING AMOUNT
Pooled Accounts	\$ 946,560	\$ 200,000	\$ -	\$ 746,560	\$ 918,881
Fire Protection	168,215	100,000	-	68,215	168,215
Total Cash Dep.	<u>\$1,114,775</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 814,775</u>	<u>\$1,087,096</u>
Trust & Agency	\$ 122,203	\$ -	\$ -	\$ 122,203	\$ 25,517

The Township has no funds classified as investments at March 31, 2004.

NOTE D: CAPITAL ASSETS

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>	<u>CAPITAL ASSETS DEPRECIATED</u>			
	<u>Land</u>	<u>Buildings & Improvement</u>	<u>Machinery & Equipment</u>	<u>Vehicles</u>	<u>Totals</u>
Governmental Activities					
Balance, April 1, 2003	\$ 37,498	\$ 558,243	\$ 79,755	\$ 255,578	\$ 931,074
Increases	-	-	17,246	172,447	189,693
Decreases	-	-	-	-	-
Balance, March 31, 2004	<u>37,498</u>	<u>558,243</u>	<u>97,001</u>	<u>428,025</u>	<u>1,120,767</u>
Accumulated Depreciation					
Balance, April 1, 2003	-	203,462	53,926	236,165	493,553
Increases	-	16,932	7,779	21,203	45,914
Decreases	-	-	-	-	-
Balance, March 31, 2004	<u>-</u>	<u>220,394</u>	<u>61,705</u>	<u>257,368</u>	<u>539,467</u>
Governmental Activities					
Capital Assets, Net	<u>\$ 37,498</u>	<u>\$ 337,849</u>	<u>\$ 35,296</u>	<u>\$ 170,657</u>	<u>\$ 581,300</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental Activities

Elections	\$ 630
Tax Collection	375
Cemetery	190
Township Property	13,385
Fire Protection	31,334
Total	<u>\$ 45,914</u>

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE E: PENSION PLAN

The Township of Otsego Lake contributes to the Township of Otsego Lake Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Upon the date of hire, all salaried employees are eligible to participate in the plan. Contributions made by both the Township and employees vest immediately. The participant will receive benefits at age 65 or the tenth anniversary of the date the participant commenced participation of the plan if later. The plan does not allow early retirement at age 55.

The plan requires the Township to contribute 10% of the eligible employees wages. Additionally, each participant may make a contribution up to 10% of their salary. During the year the Township contributed \$13,521 to the plan which was 10% of its current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE F: SPECIAL ASSESSMENT DISTRICT

On October 2, 2001, the Township levied a special assessment of \$18 per foot on property owners in connection with road improvements made in downtown Waters, Michigan. The Township paid and expensed the road repair bill and collected a levy over 3 years on the tax rolls December 1, 2001, 2002, and 2003 for reimbursement. The current year levy of \$19,234 is included in General Fund Revenue. The assessment has been fully collected at March 31, 2004.

NOTE G: WASTE MANAGEMENT CONTRACT

The Township entered into a three year contract (1/1/02-12/31/04) with Waste Management of Michigan, Inc. on October 18, 2001 for weekly trash collection services. The charge is \$9.45 per unit per month with initial units of 1960. Units will be updated annually.

**TOWNSHIP OF OTSEGO LAKE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE H: FUND BALANCE/NET ASSETS

CALCULATION OF BEGINNING NET ASSETS

The Township adopted GASB Statement No. 34 effective April 1, 2003. The following represents the reconciliation of the Townships fund balance as of April 1, 2003, to its beginning net assets balance, as presented in the Statement of Activities, for the year ended March 31, 2004:

Total Fund Balance, April 1, 2003	\$1,032,387
Record capital assets	931,074
Record accumulated depreciation	<u>(493,553)</u>
Beginning Net Assets, April 1, 2003	<u>\$1,469,908</u>

NOTE I: CONTINGENCIES

INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

TOWNSHIP OF OTSEGO LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Taxes and Assessments	\$ 126,990	\$ 126,990	\$ 129,994	\$ 3,004
Collection Fees	49,947	49,947	50,013	66
License and Permits	100	100	-	(100)
State Shared Revenues	186,394	186,394	177,698	(8,696)
Charges for Services	1,500	1,500	868	(632)
Interest	5,000	5,000	3,607	(1,393)
Rents and Royalties	2,000	2,000	2,750	750
Miscellaneous	700	700	3,687	2,987
Total Revenues	372,631	372,631	368,617	(4,014)
EXPENDITURES				
GENERAL GOVERNMENT:				
Township Board:				
Salaries	5,694	5,694	5,964	(270)
Fringe Benefits	2,000	2,000	1,581	419
Office Supplies	1,000	1,000	581	419
Professional Fees	8,500	8,500	3,028	5,472
Education and Training	5,500	5,500	3,897	1,603
Pension	14,000	14,000	13,521	479
Community Promotion	2,000	2,000	755	1,245
Printing and Publishing	1,500	1,500	1,015	485
Insurance and Bonds	9,000	9,000	7,874	1,126
Dues and Membership	3,000	3,000	2,381	619
Assistance	1,000	1,000	40	960
Capital Outlay	10,000	10,000	4,707	5,293
Sr. Citizen Tax Assistance	500	500	500	-
Miscellaneous	1,500	1,500	1,462	38
Total Township Board	65,194	65,194	47,306	17,888
Township Supervisor:				
Salaries	16,030	16,030	16,030	-
Salaries-Deputy	500	500	-	500
Office Supplies	100	100	65	35
Capital Outlay	50	50	-	50
Total Township Supervisor	16,680	16,680	16,095	585
Election:				
Salaries	2,500	2,500	592	1,908
Office Supplies	200	200	-	200
Operating Supplies	500	500	116	384
Capital Outlay	500	500	-	500
Total Election	3,700	3,700	708	2,992

TOWNSHIP OF OTSEGO LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED MARCH 31, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Assessor:				
Salaries	29,962	29,962	29,067	895
Office Supplies	500	500	32	468
Data Processing	6,000	6,000	6,328	(328)
Operating Supplies	3,000	3,000	2,079	921
Contractual	18,975	18,975	8,085	10,890
Capital Outlay	2,000	2,000	2,109	(109)
Total Township Assessor	60,437	60,437	47,700	12,737
Township Clerk:				
Salaries	20,837	20,837	20,837	-
Salaries-Deputy	1,000	1,000	300	700
Office Supplies	1,000	1,000	269	731
Operating Supplies	1,000	1,000	993	7
Communication	-	-	-	-
Capital Outlay	2,000	2,000	1,824	176
Total Township Clerk	25,837	25,837	24,223	1,614
Board of Review:				
Salaries	1,000	1,000	765	235
Education	500	500	110	390
Total Board of Review	1,500	1,500	875	625
Township Treasurer:				
Treasurer Salaries	23,237	23,237	23,237	-
Salaries-Deputy	3,000	3,000	100	2,900
Office Supplies	1,000	1,000	196	804
Data Processing	4,500	4,500	2,707	1,793
Operating Supplies	10,000	10,000	3,559	6,441
Insurance and Bonds	300	300	-	300
Capital Outlay	2,000	2,000	1,860	140
Total Township Treasurer	44,037	44,037	31,659	12,378

TOWNSHIP OF OTSEGO LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED MARCH 31, 2004

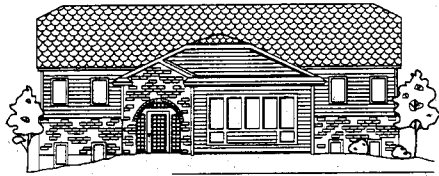
	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Building and Grounds:				
Salaries	1,000	1,000	38	962
Supplies	2,800	2,800	277	2,523
Service Contract	12,000	12,000	12,010	(10)
Communication	3,500	3,500	3,273	227
Transportation	-	-	-	-
Utilities	5,000	5,000	3,690	1,310
Repair and Maintenance	10,000	10,000	6,061	3,939
Miscellaneous	250	250	239	11
Hall Improvements	3,000	3,000	-	3,000
Cemetery Improvements	10,000	10,000	-	10,000
Capital Outlay	20,000	20,000	9,160	10,840
Assistance	-	-	-	-
Total Building and Grounds	67,550	67,550	34,748	32,802
Total General Government	284,935	284,935	203,314	81,621
Planning & Zoning				
Salaries	3,500	3,500	2,530	970
Office Supplies	100	100	269	(169)
Education and Training	3,000	3,000	995	2,005
Total Planning & Zoning	6,600	6,600	3,794	2,806
Roads	101,000	101,000	6,443	94,557
Street Lights	2,000	2,000	1,591	409
Total Expenditures	394,535	394,535	215,142	179,393
OTHER FINANCING USES:				
Transfers Out	550	550	396	154
Total Expenditures and Other Financing Uses	395,085	395,085	215,538	179,547
Excess (Deficiency) of Revenues over Expenditures and Other Uses	(22,454)	(22,454)	153,079	175,533
Fund Balance - April 1	631,120	631,120	631,120	-
Fund Balance - March 31	\$ 608,666	\$ 608,666	\$ 784,199	\$ 175,533

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FIRE PROTECTION FUND
YEAR ENDED MARCH 31, 2004**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES:				
Taxes and Assessments	\$ 62,956	\$ 62,956	\$ 102,732	\$ 39,776
Charges for Services- Hayes	3,600	3,600	3,600	-
Interest	5,000	5,000	1,741	(3,259)
Miscellaneous	500	500	3,525	3,025
Total Revenues	72,056	72,056	111,598	39,542
EXPENDITURES:				
Salaries	1,000	1,000	75	925
Fringe Benefits	3,500	3,500	2,190	1,310
Per Diem & Fees	28,000	28,000	27,884	116
Office Supplies	6,200	6,200	3,356	2,844
Uniforms	2,000	2,000	1,879	121
Professional Services	1,500	1,500	400	1,100
Communication	1,000	1,000	953	47
Transportation	100	100	-	100
Education and Training	5,000	5,000	378	4,622
Community Promotion	1,000	1,000	32	968
Printing and Publishing	100	100	277	(177)
Insurance and Bonds	6,500	6,500	9,049	(2,549)
Utilities	5,000	5,000	4,922	78
Repair and Maintenance	16,000	16,000	12,964	3,036
Miscellaneous	300	300	315	(15)
Capital Outlay	101,300	201,300	178,316	22,984
Debt Retirement	10,000	10,000	-	10,000
Total Expenditures	188,500	288,500	242,990	45,510
Excess (Deficiency) of Revenues Over Expenditures	(116,444)	(216,444)	(131,392)	85,052
OTHER FINANCING SOURCES				
Loan Proceeds	-	100,000	100,000	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	116,444	116,444	31,392	85,052
Fund Balance - April 1	204,641	204,641	204,641	-
Fund Balance - March 31	\$ 88,197	\$ 88,197	\$ 173,249	\$ 85,052

**TOWNSHIP OF OTSEGO LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TRASH COLLECTION FUND
YEAR ENDED MARCH 31, 2004**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES:				
Taxes & Assessments	\$ 227,367	\$ 267,367	\$ 228,048	\$ (39,319)
Interest Income	1,000	1,000	463	(537)
Miscellaneous Income	-	-	-	-
Total Revenues	228,367	268,367	228,511	(39,856)
EXPENDITURES:				
Trash Service	227,367	227,367	227,524	(157)
Office Supplies	100	100	225	(125)
Operating Supplies	100	100	-	100
Legal	500	500	196	304
Printing & Publishing	100	100	-	100
Miscellaneous	-	-	-	-
Total Expenditures	228,167	228,167	227,945	222
Excess (Deficiency) of Revenues over Expenditures	200	40,200	566	(39,634)
Fund Balance - April 1	196,626	196,626	196,626	-
Fund Balance - March 31	\$ 196,826	\$ 236,826	\$ 197,192	\$ (39,634)



Keskin, Cook, Miller, Smith & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

August 31, 2004

To the Members of the Board
Otsego Lake Township
Otsego County, Michigan

During the course of our audit of the financial statements of Otsego Lake Township for the year ended March 31, 2004, we noted the following issues:

1. During the audit it was noted that the trust and agency activities were not reconciled to bank statement balances. Specifically, the reconciled bank balance was not agreed to amounts due to various taxing agencies and/or individuals. This was caused by a variety of issues as noted below:
 - a. Delinquent personal property taxes collected had not been disbursed to the appropriate agencies. Some of these funds at the time of the audit fieldwork date had been retained for as long as 14 months.
 - b. Overpayments from taxpayers for both the summer and winter levies had not been refunded. Some of these amounts were in excess of \$1,000.
 - c. Errors were made in settlement with the County of Otsego that had not been corrected. The county was underpaid \$3,000.
 - d. Collections of personal property taxes were not deposited timely. The checks were being held in a file until the treasurer had time to handle them.
2. Due to the above it was considered necessary to confirm unpaid delinquent tax statements for the past year. As a result of those confirmation requests several delinquent amounts were received. It is evident that the treasurer has not been diligent in collecting these amounts, as it is her duty to do so.

We recommend that all deposits to the trust and agency account be reconciled with proper payees and that those amounts be paid timely. In addition the treasurer needs to take all appropriate actions to collect delinquent personal property taxes.

At March 31, 2004 we reconciled the account with known differences and have provided that information to the treasurer, yet certain amounts cannot be attributed to any payee at that date. We recommend efforts continue to determine the proper status of these funds. We also recommend that follow-up procedures be adopted to assure that these funds are handled appropriately in the future.

Respectfully submitted,


Keskin, Cook, Miller, Smith & Alexander LLP